

CAPSTONE BEHAVIORAL HEALTHCARE, INC.
NEWTON, IOWA

FINANCIAL REPORT
JUNE 30, 2013 AND 2012

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

TABLE OF CONTENTS
JUNE 30, 2013 AND 2012

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS:	
STATEMENTS OF FINANCIAL POSITION	2
STATEMENTS OF ACTIVITIES	3
STATEMENTS OF FUNCTIONAL EXPENSES	4-5
STATEMENTS OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS	7-10



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Certified Public Accountants
"Achieving your goals with our knowledge."

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Capstone Behavioral Healthcare, Inc.
Newton, Iowa

We have audited the accompanying financial statements of Capstone Behavioral Healthcare, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Capstone Behavioral Healthcare, Inc. as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Capstone Behavioral Healthcare, Inc.'s June 30, 2012 financial statements, and our report date January 30, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

ANDERSON, LARKIN & CO. P.C.

Anderson, Larkin & Co. P.C.

Ottumwa, Iowa
November 8, 2013

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 WITH COMPARATIVE TOTALS AS OF JUNE 30, 2012

<u>ASSETS</u>		
	<u>2013</u>	<u>2012</u>
<u>CURRENT ASSETS:</u>		
Cash and cash equivalents	\$ 12,799	\$ 6,121
Accounts receivable (net of allowance for doubtful accounts of \$43,603)	502,736	486,651
Prepaid expenses	50	-
Due from related party	<u>12,912</u>	<u>8,484</u>
 TOTAL ASSETS	 \$ <u>528,497</u>	 \$ <u>501,256</u>
 <u>LIABILITIES AND NET ASSETS (DEFICIT)</u>		
<u>CURRENT LIABILITIES:</u>		
Accounts payable	\$ 47,459	\$ 45,058
Due to related party	161,561	141,961
Accrued liabilities:		
Salaries	20,038	16,353
Vacation	31,522	28,885
Payroll taxes	58,794	136,457
Interest	3,142	1,242
Other liabilities	1,286	1,384
Line of credit	30,000	20,000
Current maturities of notes payable	<u>154,780</u>	<u>27,973</u>
 TOTAL CURRENT LIABILITIES	 508,582	 419,313
<u>LONG-TERM LIABILITIES:</u>		
Notes payable - less current maturities	<u>29,264</u>	<u>149,294</u>
 TOTAL LIABILITIES	 <u>537,846</u>	 <u>568,607</u>
<u>NET ASSETS (DEFICIT):</u>		
Unrestricted	<u>(9,349)</u>	<u>(67,351)</u>
 TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	 \$ <u>528,497</u>	 \$ <u>501,256</u>

See Accompanying Notes to Financial Statements

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

STATEMENTS OF ACTIVITIES
YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2012

<u>OPERATING REVENUES, GAINS, AND OTHER SUPPORT:</u>	<u>2013</u>	<u>2012</u>
Public support:		
Capstone Community Foundation	\$ -	\$ 17,213
Fees from government agencies:		
County revenue:		
Mental health	334,842	674,347
Community based services	91,769	34,881
Club house services	32,800	-
Habilitation:		
Community based services	946,758	1,111,328
Iowa Department of Public Health	-	5,248
Patient fees	787,650	320,197
Adjustment for managed care and charity care	(506,168)	(579,515)
Other revenue:		
Miscellaneous	<u>4,325</u>	<u>10,026</u>
 TOTAL OPERATING REVENUES, GAINS AND OTHER SUPPORT	 <u>1,691,976</u>	 <u>1,593,725</u>
 <u>OPERATING EXPENSES:</u>		
Program services:		
Mental health services	1,051,393	998,864
Community based services	320,908	468,042
Club house services	<u>19,858</u>	<u>-</u>
Total program services	1,392,159	1,466,906
Supporting services:		
Management and general	<u>241,815</u>	<u>174,922</u>
 TOTAL OPERATING EXPENSES	 <u>1,633,974</u>	 <u>1,641,828</u>
 CHANGE IN NET ASSETS	 58,002	 (48,103)
NET ASSETS (DEFICIT) - Beginning of year, as restated	<u>(67,351)</u>	<u>(19,248)</u>
NET ASSETS (DEFICIT) - End of year	\$ <u>(9,349)</u>	\$ <u>(67,351)</u>

See Accompanying Notes to Financial Statements

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2013

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2012

	<u>Program Services</u>		
	<u>Mental Health Services</u>	<u>Community Based Services</u>	<u>Club House Services</u>
<u>OPERATING EXPENSES:</u>			
Salaries	\$ 632,890	\$ 180,826	\$ 13,639
Payroll taxes and insurance	73,967	21,133	1,043
Group benefits	<u>88,768</u>	<u>25,362</u>	<u>3,741</u>
Total salaries and related expenses	795,625	227,321	18,423
Professional fees	13,384	2,677	-
Contract service payments	27,706	34,633	-
Contract labor	104,207	11,578	-
Office supplies and expense	8,672	1,239	-
Medical supplies and other costs	1,754	195	-
Food supplies	-	11,406	-
Telephone	11,964	1,496	-
Postage and shipping	370	370	-
Rent	25,996	3,714	663
Building and grounds	-	1,375	-
Utilities	4,151	2,076	772
Property and liability insurance	25,250	8,417	-
Mileage	1,528	12,227	-
Staff development, training and recruitment	3,232	190	-
Meetings and conferences	114	-	-
Subscriptions and publications	329	-	-
Membership dues	344	-	-
Equipment rent	11,514	720	-
Interest expense	-	-	-
Public relations	11,265	704	-
Bank fees	-	-	-
Penalties	-	-	-
Miscellaneous	<u>3,988</u>	<u>570</u>	<u>-</u>
TOTAL OPERATING EXPENSES	\$ <u>1,051,393</u>	\$ <u>320,908</u>	\$ <u>19,858</u>

	Supporting Services Management and General	<u>2013</u>	<u>2012</u>
<u>Total</u>		<u>Total</u>	<u>Total</u>
\$ 827,355	\$ 90,413	\$ 917,768	\$ 1,131,280
96,143	10,567	106,710	113,619
<u>117,871</u>	<u>12,681</u>	<u>130,552</u>	<u>79,918</u>
1,041,369	113,661	1,155,030	1,324,817
16,061	10,707	26,768	41,259
62,339	6,926	69,265	23,185
115,785	-	115,785	63,169
9,911	2,478	12,389	13,490
1,949	-	1,949	1,002
11,406	-	11,406	10,966
13,460	1,495	14,955	16,481
740	2,957	3,697	5,166
30,373	7,427	37,800	28,241
1,375	5,501	6,876	15,564
6,999	692	7,691	7,451
33,667	8,416	42,083	41,713
13,755	1,529	15,284	12,119
3,422	380	3,802	1,414
114	1,029	1,143	2,042
329	82	411	1,867
344	86	430	-
12,234	2,158	14,392	12,332
-	23,098	23,098	7,996
11,969	2,112	14,081	4,794
-	368	368	76
-	49,575	49,575	-
<u>4,558</u>	<u>1,138</u>	<u>5,696</u>	<u>6,684</u>
\$ <u>1,392,159</u>	\$ <u>241,815</u>	\$ <u>1,633,974</u>	\$ <u>1,641,828</u>

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2012

	<u>2013</u>	<u>2012</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Change in net assets	\$ 58,002	\$ (48,103)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Increase (decrease) in allowance for doubtful accounts	(9,360)	2,525
Increase in account receivable	(6,725)	(110,279)
Increase in due from related party	(4,428)	(6,304)
Decrease (increase) in prepaid expenses	(50)	3,998
Increase in accounts payable	2,401	32,232
Increase in due to related party	19,600	46,387
Decrease in other liabilities	(98)	(10,200)
Increase (decrease) in accrued liabilities	(69,441)	73,126
NET CASH USED IN OPERATING ACTIVITIES	<u>(10,099)</u>	<u>(16,618)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Proceeds from long-term debt	35,000	-
Principal payments on long-term debt	(28,223)	(25,822)
Proceeds from line of credit	10,000	30,000
Principal payments on line of credit	<u>-</u>	<u>(10,000)</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>16,777</u>	<u>(5,822)</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 6,678	 (22,440)
<u>CASH AND CASH EQUIVALENTS - Beginning of year</u>	<u>6,121</u>	<u>28,561</u>
<u>CASH AND CASH EQUIVALENTS - End of year</u>	<u>\$ 12,799</u>	<u>\$ 6,121</u>
<u>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</u>		
Cash paid during the year for interest	\$ 21,198	\$ 7,501
<u>SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING ACTIVITY</u>		
Note paid off with issuance of new note	\$ -	\$ 90,000

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Organization is a nonprofit corporation established to provide services to educate, evaluate, and treat persons who are in need of mental health care or substance abuse treatment and provide services to promote the prevention of mental illness and substance abuse. Services are provided to individuals residing in Newton, Iowa and the surrounding areas.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board. Under FASB, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. At June 30, 2013, the Organization had only unrestricted net assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

The Organization's receivables are trade receivables due primarily from individuals, government agencies and Medicaid payers. The risk of loss on accounts receivable is the balance owed at the time of default. Accounts receivable are uncollateralized and are considered past due after the normal 30-60 day billing cycle and are charged off when management determines the account is uncollectible. Bad debts are charged to operations in the year in which the account is determined to be uncollectible.

Income Tax Status

The Organization is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and a similar section of Iowa income tax law, which provides tax exemption for corporations organized and operated exclusively for religious, charitable or educational purposes. The Organization has also been classified as an entity that is not a private foundation. The Organization has open tax returns for years ending June 30, 2013, 2012, 2011 and 2010, generally for 3 years after they were filed.

Allocated Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

Capstone Behavioral Healthcare, Inc. accounts for contributions in accordance with the recommendations of the Financial Accounting Standards Board. In accordance with FASB, contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long the long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

NOTE 2: LONG-TERM DEBT

Long-term debt at June 30, 2013 consisted of the following:

First Newton National Bank

Dated May 10, 2010, due May 1, 2015, interest rate is 6.25%,
payable in monthly installments of \$2,719 including interest. \$ 59,044

Dated July 15, 2011, due October 12, 2013, interest rate is 3.31%.
Interest is payable monthly. This loan has a balloon payment
(including principal) due at maturity date. 90,000

Dated July 17, 2012, due February 17, 2014, interest rate is 5.9%.
Interest is payable monthly. This loan has a balloon
payment (including principal) due at maturity date. 35,000

Total	184,044
Less current maturities	<u>154,780</u>
Total long term debt	\$ <u>29,264</u>

The notes are secured by CD's and real estate of the Capstone Community Foundation, and have also been guaranteed by the Foundation.

Long-term debt is expected to mature as follows:

Year Ending	
<u>June 30,</u>	
2014	\$ 154,780
2015	<u>29,264</u>
Total	\$ <u>184,044</u>

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 3: LINE OF CREDIT

On December 27, 2012, Capstone Behavioral Healthcare was extended a \$40,000 line of credit with First Newton National Bank. The line of credit has a variable interest rate currently at 5.9% and expires on December 27, 2013. The line of credit is secured by real estate of the Capstone Community Foundation. At June 30, 2013, \$30,000 was outstanding on this line of credit.

NOTE 4: LEASE AGREEMENTS

The Organization leases property from Capstone Community Foundation for use in its operations. The lease is classified as an operating lease and has a one-year term renewable at the end of each fiscal year. The annual lease rate is based on Capstone Community Foundation's actual costs, currently \$2,800 per month.

The Organization also leases an apartment from Beacon Housing Corporation (a related party) for \$350 per month for use as an office; the lease is renewed annually. The Organization also has leases which are properly classified as operating leases for equipment with unrelated third parties for \$1,091 per month.

Future minimum lease payments are as follows:

2014	\$	50,344
2015		12,360
2016		<u>3,090</u>
	\$	<u>65,794</u>

Lease expense totaled to \$52,192 for the year ended June 30, 2013, which is included in the statement of functional expenses as rent and equipment rent.

NOTE 5: RELATED PARTIES

Capstone Community Foundation is a separate non-profit corporation. It leases property and equipment and contributes funding to the Organization. Following, is a summary of transactions as of and for the year ended June 30, 2013:

Rents paid to Capstone Community Foundation	\$	33,600
Due to Capstone Community Foundation	\$	161,561

Beacon Housing Corporation, a separate non-profit corporation, was incorporated November 12, 1991. It provides residential housing for individuals with disabilities through a HUD program. The two corporations are related by common officers and trustees and operate toward a common cause. Following is a summary of transactions as of and for the year ended June 30, 2013:

Due from Beacon Housing Corporation	\$	12,912
Management fee revenue from Beacon Housing Corporation	\$	4,325
Rents paid to Beacon Housing	\$	4,200

Management fee income is included in miscellaneous revenue on the Statement of Activities.

NOTE 6: PENSION PLAN

The Organization has established a 401(k) Plan for all full-time employees. The Organization's Plan allows for the Organization to make voluntary contributions. The Organization did not contribute to the Plan during the year ended June 30, 2013.

CAPSTONE BEHAVIORAL HEALTHCARE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 7: RESTATEMENTS

During the year ended June 30, 2013 it was determined that accounts receivable and fees had not been properly accrued at June 30, 2012.

Net assets June 30, 2012	
As previously reported	\$ (124,243)
Adjustment to accounts receivable and fees	<u>56,892</u>
Net assets June 30, 2012, as restated	\$ <u>(67,351)</u>

NOTE 8: RECLASSIFICATIONS

Certain amounts for June 30, 2012 have been reclassified to conform with the June 30, 2013 presentation.

NOTE 9: EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through November 8, 2013, the date which the financial statements were available to be issued.